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UNDER SECRETARY OF DEFENSE  
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WASHINGTON, DC 20301-1100



JUN 17 1997

MEMORANDUM FOR UNDER SECRETARIES OF DEFENSE

DIRECTOR, DEFENSE RESEARCH AND ENGINEERING  
ASSISTANT SECRETARIES OF DEFENSE  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
DIRECTOR, OPERATIONAL TEST AND EVALUATION  
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INFO COPY: SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF

SUBJECT: Management Reform Memorandum #12 -- Expanding the Use of Prime Vendor  
Contract Instruments

The Secretary of Defense has directed that we undertake a revolution in business practices in conjunction with the Quadrennial Defense Review. During the past 3 years the Defense Logistics Agency (DLA) has pioneered a new approach to acquisition known variously as direct vendor delivery, prime vendor and virtual prime vendor. DLA negotiated these new contract instruments to permit customers at the local level to procure readily available items directly from the commercial supplier at discounted prices for rapid local delivery. These contracts not only provide improved service but avoid the cost of building warehouses and maintaining inventories.

These new contract instruments have proven immensely successful. To date, some 90 percent of all pharmaceutical supplies are purchased through prime vendor contracts. In addition, 95 percent of CONUS subsistence for dining halls, both ashore and afloat, are purchased through prime vendor contracts. Working with the Military Departments, DLA has extended this innovation to supplies and materials for facilities maintenance. While this new contract instrument is in the prototype stage, it has potential for considerable cost savings.

I am asking the Director of DLA, in coordination with each of the Military Departments, to develop a regional implementation blueprint for the DLA prime vendor contracting program for facilities maintenance supplies and services. The blueprint should identify the critical events and site designations for regional implementation within 12 months and nationwide availability by the middle of FY 1999.